

**SOUTH CAROLINA
EDUCATIONAL TELEVISION COMMISSION
COLUMBIA, SOUTH CAROLINA**

FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

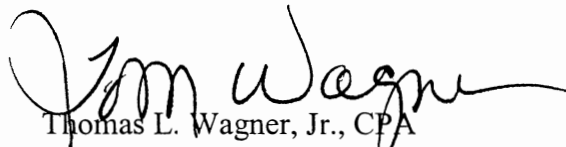
November 29, 2004

The Honorable Mark Sanford, Governor
and
Members of the South Carolina Educational Television Commission
South Carolina Educational Television Commission
Columbia, South Carolina

This report on the audit of the basic financial statements and the additional reports required by OMB Circular A-133 of the South Carolina Educational Television Commission for the fiscal year ended June 30, 2004, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

**SOUTH CAROLINA
EDUCATIONAL TELEVISION COMMISSION**

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2004**

INDEPENDENT AUDITOR'S REPORT	1 and 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
FINANCIAL STATEMENTS:	
Entity-wide financial statements:	
Statement of net assets	9
Statement of activities	10
Fund financial statements:	
Balance sheet – governmental funds	11 and 12
Statement of revenues, expenditures and changes in fund balances – governmental funds	13 and 14
Notes to financial statements	15 – 32
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	33
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	34 and 35
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	36 and 37
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	38 -40
OTHER MANAGEMENT LETTER COMMENT	41
STATUS OF PRIOR FINDINGS	42
CORRECTIVE ACTION PLAN	APPENDIX A

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Educational Television Commission ("the Commission") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the Commission, an agency of the State. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include, other agencies, divisions or component units of the State of South Carolina.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Educational Television Commission as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management discovered an error in the reporting of certain receivables and deferred revenues as of June 30, 2003. The required correction was accounted for as a prior period adjustment as detailed in Note 19.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Commission taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2004 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Rogers & Lalam, PA

November 11, 2004

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

As management of the South Carolina Educational Television Commission ("the Commission"), we provide this Management's Discussion and Analysis of South Carolina Educational Television's Financial Statements for the fiscal year ended June 30, 2004 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. The financial statements presented focus on the financial condition of the Commission, the results of operations, and the cash flows of the Commission.

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements include three components: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The *Entity-Wide Financial Statements* provide a broad overview of the Commission's operations. The entity-wide financial statements include two statements: the Statement of Net Assets; and, the Statement of Activities.

The *Fund Financial Statements* provide information on the Commission's funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the Commission's funds are classified as Governmental funds. The Commission's governmental funds include the General Fund, Capital Projects Fund, State Lottery Fund and Other Governmental Funds.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the Department-wide and fund financial statements.

The following discussion and analysis of the Commission's entity-wide financial statements provides an overview of its financial activities for the year. Comparisons to the prior fiscal year are also made.

Statement of Net Assets

The Statement of Net Assets presents information reflecting the Commission's assets, liabilities and net assets as of the end of the fiscal year. This statement provides the reader with a fiscal snapshot of the Commission. The Statement of Net Assets presents end of year data concerning Assets (current and non-current), Liabilities (current and non-current), and

Net Assets (Assets minus Liabilities). Current assets and liabilities are those with immediate liquidity or which are collectible or due within twelve months of the statement date. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. Over time, increases or decreases in the Commission's net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The assets of the Commission exceeded its liabilities by \$59.5 million at fiscal year ending June 30, 2004 (See Table 1 below for a summary of net assets for fiscal years 2003-2004 and 2002-2003). Of this amount, \$3.3 million was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Commission's ongoing obligations.

Table 1				
Condensed Statement of Net Assets				
	2004	(as Restated) 2003	Increase / (Decrease)	Percent Change
ASSETS				
Current Assets	\$ 21,694,619	\$ 28,737,836	\$ (7,043,217)	(24.51%)
Capital Assets, net of accumulated depreciation	47,039,366	45,147,649	1,891,717	4.19%
Prepaid Expenses, net of current portion	558,833	-	558,833	100.00%
Loan Issuance Costs	67,200	84,000	(16,800)	(20.00%)
Total Assets	<u>\$ 69,360,018</u>	<u>\$ 73,969,485</u>	<u>\$ (4,609,467)</u>	(6.23%)
LIABILITIES				
Current Liabilities	\$ 7,161,473	\$ 8,503,280	\$ (1,341,807)	(15.78%)
Noncurrent Liabilities	2,710,694	3,370,339	(659,645)	(19.57%)
Total Liabilities	9,872,167	11,873,619	(2,001,452)	(16.86%)
NET ASSETS				
Capital Assets, net of related debt	44,142,310	41,583,061	2,559,249	6.15%
Restricted	12,018,584	17,600,669	(5,582,085)	(31.72%)
Unrestricted	3,326,957	2,912,136	414,821	14.24%
Total Net Assets	59,487,851	62,095,866	(2,608,015)	(4.20%)
Total Liabilities and Net Assets	<u>\$ 69,360,018</u>	<u>\$ 73,969,485</u>	<u>\$ (4,609,467)</u>	(6.23%)

Total assets of the Commission decreased by \$4.6 million. Cash and cash equivalents decreased \$6.4 million. The decrease in total assets and cash and cash equivalents can be attributed to a \$5.3 million decrease in the cash and cash equivalents in the State Lottery Fund and a \$1.5 million decrease in the Education Improvement Act Fund. The commission incurred prepaid expenses during the fiscal year for a digital tower lease paid from Lottery Funds.

The decrease in current liabilities is attributable to a decrease in accrued salaries and related benefits and a decrease in deferred revenue. Accrued salaries and related benefits decreased \$335,000 as the result of the elimination of positions through a Voluntary Separation Program for State Fiscal Year 2003-04. Deferred revenue decreased by \$1.1 million in the Education Improvement Act Fund.

The decrease in non-current liabilities can be attributed to the payment of the Commission's note payable during the fiscal year.

Net assets of the Commission decreased during the year by \$2.4 million. The decrease is driven largely by the \$6.4 million decrease in cash and cash equivalents. Along with the decrease in cash and cash equivalents, there was an increase in capital assets and a decrease in total liabilities. This trend should continue during the next fiscal year as non-recurring lottery funds are expended on capital assets for the digital conversion project.

Statement of Activities

This statement represents the program revenues and expenses, as well as any general revenue that the Commission receives. The purpose of this statement is to present the reader with information relating to revenues received and expenses incurred during the fiscal year ending June 30, 2004.

Program revenues for the commission are classified in three categories: Charges for Services, Operating Grants and Capital Grants. Charges for services are received for providing services to the various customers and constituencies of the Commission. Operating grants are primarily made up of the Community Service Grants received from the Corporation for Public Broadcasting, contributed support from the ETV Endowment and private grants. Operating grants are used in the ongoing operations of the Commission. Capital grants are grants used for the purchase or construction of capital assets. The commission currently has capital grants from the US Department of Commerce, State issued Capital Improvement Bonds and State Capital Reserve funds. Total program revenue from all three sources received during the fiscal year totaled \$11.5 million.

Expenses for the Commission are shown under the category of Educational Broadcasting and are classified as Personal Services, Other Operating, Interest and Depreciation. Personal Service costs were \$11.3 million (39.6%). Other operating costs totaled \$13.6 million (47.6%). Interest and depreciation costs totaled \$3.6 million (12.8%).

The statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets for the current fiscal year (See Table 2 for a comparison of revenues, expenses and changes in net assets for fiscal years 2003-2004 and 2002-2003).

Table 2				
Statement of Revenues, Expenses, and Changes in Net Assets				
	Governmental Activities			
		(as Restated)	Increase /	Percent
	2004	2003	(Decrease)	Change
REVENUES				
Program Revenues:				
Charges for Services	\$ 3,062,427	\$ 4,102,314	\$ (1,039,887)	(25.35%)
Operating grants & contributions	7,595,016	8,685,809	(1,090,793)	(12.56%)
Capital grants & contributions	876,563	21,798,177	(20,921,614)	(95.98%)
General Revenues:				
State Appropriations	14,376,606	18,530,867	(4,154,261)	(22.42%)
Contributions	54,824	70,188	(15,364)	(21.89%)
Total Revenues	25,965,436	53,187,355	(27,221,919)	(51.18%)
EXPENSES				
Educational Broadcasting:				
Personal Services	11,311,910	14,410,817	(3,098,907)	(21.50%)
Other operating costs	13,613,796	14,358,589	(744,793)	(5.19%)
Interest Expense	117,257	209,990	(92,733)	(44.16%)
Depreciation	3,530,488	4,203,337	(672,849)	(16.01%)
Total Expenses	28,573,451	33,182,733	(4,609,282)	(13.89%)
Increase (Decrease) in Net Assets	(2,608,015)	20,004,622	(22,612,637)	(113.04%)
Net Assets - beginning of year	62,095,866	42,091,244	20,004,622	47.53%
Net Assets - end of year	<u>\$ 59,487,851</u>	<u>\$ 62,095,866</u>	<u>\$ (2,608,015)</u>	<u>(4.20%)</u>

Program revenues reflected a large decrease (\$23.1 million) over the previous fiscal year. Revenues from charges for services (-25.35%) and operating grants (-12.56%) declined from the previous fiscal year. The Capital grants decrease of \$20.9 million can be attributed to the non-recurring state lottery appropriation and federal funds received for the Commission's digital conversion project during the previous fiscal year.

General revenues decreased as a result of continued state budget reductions. The Commission also returned \$2.08 million in unspent supplemental state appropriation to the Department of Education. These funds were originally appropriated for ITFS tower expansion. The Commission is now developing a web streaming technology to provide educational content to K-12 schools.

Total expense reductions were \$4.6 million. Personal service reductions of \$3.1 million were the result of a voluntary separation program. Depreciation expense decreased as a result of major equipment being fully depreciated.

The Commission's net assets decreased \$2.6 million from the previous fiscal year. The reduction in net assets can be attributed to the decrease in state appropriations, program revenue and capital grants. The Commission continued to cut expenses to help offset the reductions in revenue.

Capital Assets and Debt Administration

The Commission's Capital Assets net of depreciation were \$47 million at June 30, 2004. This investment in capital assets includes land, buildings and improvements, equipment, vehicles and construction in progress. Table 3 summarizes capital assets at June 30, 2004 and June 30, 2003.

Table 3		
SC ETV Capital Assets		
	2004	2003
Land	\$ 946,579	\$ 946,579
Building & Improvements	26,822,986	26,717,159
Equipment & Furniture	63,411,191	58,512,399
Vehicles	1,473,229	1,521,828
Construction in Progress	125,819	9,400
Total Cost	92,779,804	87,707,365
Less: Accumulated Depreciation	45,740,438	42,559,716
Net Capital Assets	\$ 47,039,366	\$ 45,147,649

The net increase in the Commission's investment in capital assets for the current fiscal year was \$1.89 million. Actual expenditures to purchase or construct capital assets were \$5.3 million. Depreciation charges for the year totaled \$3.5 million.

The Commission currently has one note payable with an interest rate of 3.29%, original maturity date of June 30, 2008, which is secured by equipment held by the Commission. As of June 30, 2004 the total principal amount still owed was approximately \$2.9 million.

Economic Outlook

The Commission underwent midyear and base budget reductions to our state appropriated funds during the fiscal year. The Commission is aware that future state funded appropriations may be reduced and continues to look for ways to increase operating revenue and improve its operating efficiencies.

Requests For Information

This financial report is designed to provide a general overview of the South Carolina Educational Television Commission's finances for all of the Commission's taxpayers, customers and creditors. This financial report seeks to demonstrate the Commission's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Educational Television Commission
Senior Vice President Administration
1101 George Rogers Boulevard
Columbia, South Carolina 29211

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 19,915,137
Accounts receivable, net of allowance for doubtful accounts of \$20,431	377,236
Intergovernmental receivables:	
General Fund of the State	699,859
State agencies	177,697
Federal government	285,275
Costs incurred for programs not telecast	154,529
Prepaid expenses	84,886
Total current assets	<u>21,694,619</u>
Non-current assets	
Capital assets, net of accumulated depreciation	47,039,366
Prepaid expenses, net of current portion	558,833
Loan issuance costs, net of accumulated amortization	67,200
Total non-current assets	<u>47,665,399</u>
 Total assets	 <u>\$ 69,360,018</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 3,099,013
Accrued salaries and related benefits	921,722
Due to Corporation for Public Broadcasting	775,841
Deferred revenue	545,407
Current portion of note payable	689,490
Current portion of accrued compensated absences and related benefits	1,130,000
Total current liabilities	<u>7,161,473</u>
Noncurrent liabilities:	
Note payable, net of current portion	2,207,566
Accrued compensated absences and related benefits, net of current portion	503,128
Total noncurrent liabilities	<u>2,710,694</u>
Total liabilities	<u>9,872,167</u>
Net assets:	
Capital assets, net of related debt	44,142,310
Restricted	12,018,584
Unrestricted	3,326,957
Total net assets	<u>59,487,851</u>
Total liabilities and net assets	<u>\$ 69,360,018</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

	Governmental Activities
Expenses:	
Educational Broadcasting:	
Personal services	\$ 11,311,910
Other operating costs	13,613,796
Interest expense	117,257
Depreciation and amortization	<u>3,530,488</u>
Total program expenses	28,573,451
Program revenues:	
Charges for services	3,062,427
Operating grants and contributions	7,595,016
Capital grants and contributions	<u>876,563</u>
Net program expenses	<u>17,039,445</u>
General revenues:	
State appropriations	14,376,606
Contributions	<u>54,824</u>
Total general revenues	<u>14,431,430</u>
Increase (decrease) in net assets	(2,608,015)
Net assets - beginning of year, as restated	<u>62,095,866</u>
Net assets - end of year	<u><u>\$ 59,487,851</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2004

	General	Capital Projects	State Lottery Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 11,911,524	\$ 1,098,260	\$ 6,500,000	\$ 405,353	\$ 19,915,137
Accounts receivable, net of allowance for doubtful accounts of \$20,431	211,001			166,235	377,236
Intergovernmental receivables:					
General Fund of the State	699,859				699,859
State agencies	177,697				177,697
Federal government		285,275			285,275
Due from other fund				1,000	1,000
Costs incurred for programs not telecast	154,529				154,529
Prepaid expenses			643,719		643,719
TOTAL ASSETS	\$ 13,154,610	\$ 1,383,535	\$ 7,143,719	\$ 572,588	\$ 22,254,452
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable	\$ 2,202,321	\$ 848,416		\$ 48,276	\$ 3,099,013
Accrued salaries and related benefits	921,722				921,722
Deferred revenue	21,095			524,312	545,407
Due to Corporation for Public Broadcasting	775,841				775,841
Due to other fund	1,000				1,000
TOTAL LIABILITIES	\$ 3,921,979	\$ 848,416	\$ -	\$ 572,588	\$ 5,342,983
FUND EQUITY:					
Fund balances:					
Reserved for costs incurred for programs not telecast	154,529				154,529
Reserved for prepaid expenses			643,719		643,719
Reserved for capital projects and equipment		535,119	6,500,000		7,035,119
Reserved for K-12 School Technology Initiative	4,339,746				4,339,746
Unreserved:					
Undesignated	4,738,356				4,738,356
TOTAL FUND EQUITY	9,232,631	535,119	7,143,719	-	16,911,469
TOTAL LIABILITIES AND FUND EQUITY	\$ 13,154,610	\$ 1,383,535	\$ 7,143,719	\$ 572,588	\$ 22,254,452

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004

Reconciliation to the statement of net assets:

Fund balances - governmental funds	\$ 16,911,469
------------------------------------	---------------

Amounts reported for governmental activities in the statement of net assets are different because:

Liabilities are not due and payable in the current period, therefore, are not reported in the funds:

Note payable	\$ (2,897,056)	
Accrued compensated absences and related benefits	(1,633,128)	(4,530,184)

Assets are capitalized and depreciated or amortized in statement of net assets and charged to expenditures in the governmental funds:

Capital assets, net of accumulated depreciation	\$ 47,039,366	
Loan issuance costs, net of accumulated amortization	67,200	47,106,566

Net assets of governmental activities	\$ 59,487,851
---------------------------------------	---------------

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>Capital Projects</u>	<u>State Lottery Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
State appropriations	\$ 14,376,606				\$ 14,376,606
Contributed support	2,837,060				2,837,060
Program sales	1,975,523				1,975,523
Corporation for Public Broadcasting, Inc. grant	3,185,880				3,185,880
Education Improvement Act				1,128,043	1,128,043
Federal grants		505,901			505,901
Private grants and contracts				444,034	444,034
Charges for services	147,581				147,581
Rental fees	782,240				782,240
Royalties	43,135				43,135
Capital improvement bond revenue		337,890			337,890
Capital Reserve Fund appropriations		32,772			32,772
Miscellaneous	168,774				168,774
TOTAL REVENUES	<u>23,516,799</u>	<u>876,563</u>	<u>-</u>	<u>1,572,077</u>	<u>25,965,439</u>
EXPENDITURES:					
Internal Administration	3,312,230		6,366		3,318,596
Public education:					
Early childhood	133,992			54,462	188,454
School services	181,546		1,061		182,607
General support and services	4,974,019		8,489	1,422,593	6,405,101
Higher education general support and services	1,125,519		2,122		1,127,641
Agency services:					
Local government and business services	398,443		707		399,150
General support and services	1,261,258		2,830	16,794	1,280,882
Community education general support and services	4,609,584		8,489	78,228	4,696,301
Public affairs general support and services	2,167,481		3,537		2,171,018
Cultural and performing arts general support and services	3,390,517		1,768		3,392,285
K-12 school technology initiative	1,274,771				1,274,771
Equipment and materials purchased for resale	59,102				59,102
Debt service:					
Principal	667,532				667,532
Interest	117,257				117,257
Equipment and permanent improvements		5,819,414			5,819,414
TOTAL EXPENDITURES	<u>23,673,251</u>	<u>5,819,414</u>	<u>35,369</u>	<u>1,572,077</u>	<u>31,100,111</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(156,452)</u>	<u>(4,942,851)</u>	<u>(35,369)</u>	<u>0</u>	<u>(5,134,672)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in		4,717,108			4,717,108
Transfers out	(180,461)		(4,536,647)		(4,717,108)
Proceeds from sales of capital assets	24,957				24,957
TOTAL OTHER FINANCING SOURCES (USES)	<u>(155,504)</u>	<u>4,717,108</u>	<u>(4,536,647)</u>	<u>-</u>	<u>24,957</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(311,956)</u>	<u>(225,743)</u>	<u>(4,572,016)</u>	<u>0</u>	<u>(5,109,715)</u>
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	<u>9,658,108</u>	<u>760,862</u>	<u>11,715,735</u>	<u>-</u>	<u>22,134,705</u>
FUND BALANCES - END OF YEAR	<u>\$ 9,346,152</u>	<u>\$ 535,119</u>	<u>\$ 7,143,719</u>	<u>\$ 0</u>	<u>\$ 17,024,990</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004**

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures for the governmental funds	\$ (5,109,715)
Amounts reported for governmental activities in the statement of activities are different because:	
Cost of capital assets are reported as expenditures in the governmental funds, but are recorded as capital asset additions in the statement of net assets	5,443,075
Depreciation of capital assets is reported as an expense in the statement of activities	(3,513,688)
Amortization of loan issuance costs is reported as an expense in the statement of activities	(16,800)
Repayments of long-term debt are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	667,532
Increase in accrued compensated absences is reported as an expense in the statement of activities	(40,749)
Losses on disposals of capital assets are reported as an expense in the statement of activities, net of cash received	<u>(37,670)</u>
INCREASE (DECREASE) IN NET ASSETS	<u><u>\$ (2,608,015)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the South Carolina Educational Television Commission (the Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The Commission's significant accounting principles are described below.

Reporting Entity

The Commission is responsible for the administration of the South Carolina Educational Television Network systems. The Commission is an agency of the State of South Carolina established by Section 59-7-10 of the Code of Laws of South Carolina.

The Governor appoints the members of the Commission with the advice and consent of the Senate. The Commission members are the governing body of the Commission. The funds and account groups of the Commission are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Commission has determined it has no component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Commission.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance. The Commission had the following governmental funds.

The Commission reports the following major funds:

General Fund - The general fund accounts for all activities except those required to be accounted for in another fund. Revenues include the annual state appropriation as approved by the General Assembly, Corporation for Public Broadcasting, Inc. (CPB) grant funds, program sales, royalties, charges for services, contributed support and cost reimbursements. The revenues are used for general ongoing governmental services such as administration, maintenance, program development and production, transmission and reception of programs, and debt service. Program sales revenues report amounts received from State agencies, the ETV Endowment and others for services related to and for support of programming, production and broadcasting of programs. The Commission reports as charges for services revenue income from the ETV Endowment primarily for reimbursement of administrative services and other costs and income from State agencies and other entities for services not related to production of programs and for certain equipment.

In addition, the general fund includes the receipts and disbursements of monies from other state agencies related to the dual employment of Commission employees.

State Lottery Fund - consist of State Lottery grants as required by Section 59-150-355 of the South Carolina Code of Laws which are used primarily for the acquisition of equipment or the construction of capital projects to assist the Commission in the digital conversion process. The fund balance account related to these capital projects is titled reserved for capital projects and equipment

Capital Projects Fund - This fund accounts for federal grants, private grants and contracts, funds received from the State from capital improvement bonds and capital reserve fund appropriations and expenditures from these resources. In addition, expenditures in this fund are funded by transfers from the State Lottery fund.

Government-wide and Fund Financial Statements

The financial statements of the Commission are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Measurement Focus, Basis of accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, available means expected to be received within one year of the fiscal year-end.

Nonexchange transactions, in which the Commission receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Commission must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Commission follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements costing \$100,000 or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Commission capitalized movable personal property with a unit value in excess of \$5,000 and a useful life in excess of one year and buildings and improvements and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Budget Policy

The Commission is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

A budget versus actual comparison is not presented as required supplementary information for any of the funds since not all revenues or expenditures are budgeted in any of the funds.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on hand with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies, including the Commission, participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Commission records and reports its deposits in the general deposit accounts at cost and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Commission's special deposit accounts is posted to the Commission's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Commission's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less at the time of acquisition.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Accounts Receivable

Accounts receivable consists primarily of amounts due for sales, services and rentals. The Commission has established an allowance for doubtful accounts based on historical data and an analysis of the aged receivables at year end. The balance on the financial statements is shown net of the allowance.

Costs Incurred for Programs Not Telecast

Costs incurred for programs not telecast is accounted for using the consumption method whereby these costs are recorded as expenditures when the program is telecast and the cost incurred for programs not telecast at year end is reflected at cost in the asset section of the financial statements. For financial statement purposes, costs incurred for programs not telecast as of each year-end are offset by a reserved fund balance account because the asset does not represent resources available for expenditures.

Prepaid Expenses

Prepaid expenses are accounted for using the consumption method. Prepaid expenses consist of payments made for the long term rental of an antenna. For financial statement purposes, prepaid expenses are offset by a reserved fund balance account because the asset does not represent resources available for expenditures.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for accrued sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances which commenced on or before June 30, 2004. The Commission calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded as a liability in the statement of net assets.

Net Assets / Fund Balances

The Commission records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Net assets are categorized as follows:

Invested in capital assets, net of related debt: This represents the Fund's total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted: Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted: Consists of the remainder of the Commission's assets in excess of liabilities excluding those net assets reported in other categories.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Contributed Support

Contributed support consisting of expenditures incurred on behalf of the entity is recorded as revenues and expenditures in the general fund as services are provided. The principal portion of contributed support is provided by the ETV Endowment of South Carolina. Support by these entities includes payments on behalf of the Commission, primarily for program production or purchase, such as advertising, project development, general and administrative expenditures and fund raising expenditures which are reported primarily in cultural and performing arts general support and service expenditures by the Commission at a value equal to the actual cost to the contributing entity.

Deferred Revenue

Deferred revenue consist primarily of certain EIA and private grant contract revenue received before services required by the grantor or donor have been rendered.

CPB Grants

The Commission annually receives a grant from the Corporation for Public Broadcasting, Inc. (CPB). The CPB is a non-federal, non-governmental, not-for-profit organization that receives grants from the federal government, the private sector, and other sources. The CPB then allocates grants to public television stations nationwide for community service and these funds are unrestricted for broadcasting operations.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 2. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriations Act for the period ended June 30, 2004 as originally enacted by the General Assembly to State appropriation revenue as reported in the general fund.

Original appropriation	\$ 14,397,182
Transfer from the Department of Education for K-12 Technology funds	2,372,831
Transfer unspent K-12 Technology funds to the Department of Education	(2,088,923)
State budget mid-year reductions	<u>(143,972)</u>
Adjusted Appropriation, Budgetary Basis	14,537,118
Accrual adjustments:	
Funding for personal services and employer contributions	<u>(160,512)</u>
Accrual basis State appropriation revenue	<u><u>\$ 14,376,606</u></u>

The total amount of 2004 State appropriated fund authorized to be carried forward to fiscal year 2005 was \$4,904,787. The carryover consisted of \$4,339,746 for the K-12 School Technology Initiative carried over pursuant to Proviso 72.48 of the 2003-2004 Appropriation Act and \$565,041 of unspent fiscal year appropriations for general operating expenditures. Proviso 72.41 of the 2004-2005 Appropriation Act under which the \$565,041 was carried forward, allows a carry forward of unspent fiscal year 2003-2004 appropriations up to a maximum 10% of the Commission's original appropriation less any reduction excluding amounts carried forward under separate carry forward authority.

NOTE 3. DEPOSITS:

All deposits of the Commission are under the control of the State Treasurer, who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the financial statement amounts:

<u>Financial Statements</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$19,915,137	Petty Cash	\$ 200
		Deposits Held by State Treasurer	<u>19,914,937</u>
Totals	<u>\$19,915,137</u>	Totals	<u>\$19,915,137</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 4. CAPITAL ASSETS:

The following schedule summarizes capital assets activity for the Commission for the fiscal year 2004:

	Beginning Balances June 30, 2003	Increases	Decreases	Ending Balances June 30, 2004
Capital assets not being depreciated:				
Land and improvements	\$ 946,579	\$ -	\$ -	\$ 946,579
Construction in progress	9,400	125,819	(9,400)	125,819
Total capital assets not being depreciated	955,979	125,819	(9,400)	1,072,398
Other capital assets:				
Buildings and improvements	26,717,159	105,827		26,822,986
Equipment and furniture	58,512,399	5,153,002	(254,210)	63,411,191
Vehicles	1,521,828	67,827	(116,426)	1,473,229
Total other capital assets	86,751,386	5,326,656	(370,636)	91,707,406
Less accumulated depreciation for:				
Buildings and improvements	6,538,648	529,617		7,068,265
Equipment and furniture	35,240,098	2,831,953	(222,928)	37,849,123
Vehicles	780,970	152,118	(110,038)	823,050
Total accumulated depreciation	42,559,716	3,513,688	(332,966)	45,740,438
Other capital assets, net	44,191,670	1,812,968	(37,670)	45,966,968
Total capital assets, net	\$ 45,147,649	\$ 1,938,787	\$ (47,070)	\$ 47,039,366

Construction in progress consists of cost incurred on upgrades to various towers. The total cost of the projects is approximately \$2,010,000.

NOTE 5. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of Commission salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. Personal services and employer contributions applicable to funding sources other than State appropriations are accrued as expenditures at year end but are not included in the receivable from the General Fund of the State.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 6. OPERATING LEASES:

The Commission conducts part of its operations from leased facilities which include towers and office space. All leases are with external policies. These leases expire beginning with fiscal year 2007 and continue through fiscal year 2008. The Commission has the option to renew the tower leases upon the expiration of the lease term under conditions agreeable to both parties which primarily is an increase in the lease payment based on the CPI index. The Commission also entered into one mailroom equipment lease and two copier leases during fiscal year 2004, which will expire in 2008 and 2009 respectively. All leases with terms of more than twelve months are cancelable without penalty to the Commission should the General Assembly not provide funding for these leases. The Commission also leases equipment on a month to month basis. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Commission is responsible for maintenance on most leased property. Rental expenditures under all operating leases totaled approximately \$319,000 for the year ended June 30, 2004.

At June 30, 2004, the Commission's obligations under noncancelable operating leases having remaining terms in excess of one year are as follows:

Fiscal year ending June 30,

2005	\$ 278,465
2006	141,254
2007	92,055
2008	93,271
2009	<u>17,139</u>
Total	<u>\$ 622,184</u>

NOTE 7. NOTE PAYABLE:

The Commission borrowed \$4,752,645 under an agreement with a local financial institution during 2003 and paid off the principal balance of a prior obligation. The note requires annual payments of principal and interest totaling \$784,789 through June 30, 2008. The interest rate on this note is 3.29% per annum. The Commission incurred \$84,000 in loan issuance cost in connection with this loan that is being amortized over the life of the loan. Current year's amortization expense was \$16,800. The note is secured by various equipment with a book value of approximately \$5,670,000.

Total interest expense on the note payable for the fiscal year was \$117,257.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Details of annual debt service, including interest, for each year are as follows:

Year ending June 30,	Principal	Interest	Total
2005	689,490	95,299	784,789
2006	712,171	72,618	784,789
2007	735,598	49,191	784,789
2008	759,797	24,992	784,789
Total debt service	<u>\$ 2,897,056</u>	<u>\$ 242,100</u>	<u>\$ 3,139,156</u>

NOTE 8. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30 2004 was as follows:

	Balances, July 1, 2003	Additions	Reductions	Balances, June 30, 2004	Due Within One Year
Note payable	\$ 3,564,588	\$ -	\$ 667,532	\$ 2,897,056	\$ 689,490
Accrued compensated absences and related benefits	1,592,379	1,171,179	1,130,430	1,633,128	1,130,000
	<u>\$ 5,156,967</u>	<u>\$ 1,171,179</u>	<u>\$ 1,797,962</u>	<u>\$ 4,530,184</u>	<u>\$ 1,819,490</u>

NOTE 9. DUE FROM CAPITAL RESERVE FUND:

In fiscal year 1997, the Commission received a transfer of \$3,500,000 of Capital Reserve Funds from the State Budget and Control Board (B&CB) for Instructional Television Fixed Service (ITFS) Expansion. An additional \$3,500,000 was received in fiscal year 1999 for the same purpose as the 1997 appropriation. In fiscal year 2001, the Commission received \$250,000 for the Charleston Regional Station expansion pursuant to fiscal year 2000 Joint Resolution R467,H4776. The unspent portion at June 30, 2004 from each of the appropriations described above is restricted to expenditure for the purpose for which the funds were originally appropriated. The Commission can request these funds as capital expenditures are made.

A summary of the balances for these funds as of June 30, 2004 follows:

Total Appropriation	Balance of Appropriation to be Drawn
\$ 3,500,000	\$ 20,742
3,500,000	339,525
250,000	237,808
<u>\$ 7,250,000</u>	<u>\$ 598,075</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 10. RELATED PARTY:

A major portion of the funding of the Commission is provided by the ETV Endowment of South Carolina, Inc. (the Endowment) and South Carolina Educational Communications, Inc.(Communications), a separately chartered eleemosynary corporations governed by an independent boards of trustees over whom the Commission exercises no control. The Endowment/Communications provides support services for the Commission through the purchasing and underwriting of various programming. During the year ended June 30, 2004, the Endowment/Communications disbursed \$2,837,060 on behalf of the Commission for programs, development, advertising and other costs. The disbursements have been recorded as revenue under contributed support and expenditures under Cultural and Performing Arts General Support and Services, Public Affairs General Support and Services and Community Education General Support and Services in the General Fund. In addition, the Commission received approximately \$757,000 from the Endowment/Communications which is reported primarily as program sales. Also, the Commission recorded approximately \$166,000 in private grant revenue from the Endowment.

Summarized financial information for the Endowment/Communications as of and for the year ended June 30, 2004 is as follows:

	<u>Endowment</u>	<u>Communications</u>
As of June 30, 2004		
Total assets	<u>\$ 13,137,305</u>	<u>\$ 635,602</u>
Total liabilities	\$ 761,188	\$ 233,968
Total net assets	<u>12,376,117</u>	<u>401,634</u>
Total liabilities and net assets	<u>\$ 13,137,305</u>	<u>\$ 635,602</u>
For year ended June 30, 2004		
Revenues	\$ 7,547,670	\$ 3,227,958
Expenses	6,654,238	3,449,774
Changes in net assets	<u>\$ 893,432</u>	<u>\$ (221,816)</u>

NOTE 11. TRANSACTIONS WITH OTHER STATE AGENCIES:

The Commission has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; debt assistance services, check preparation and banking from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, grant services, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping, review and approval of certain budget amendments and other centralized functions.

CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The Commission had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and unemployment insurance, respectively. The fiscal year expenditures applicable to these transactions are not readily available.

The Commission provided no services free of charge to other State agencies during the fiscal year. Program sales revenues include fees charged for services provided to the following State agencies which include programming, production, and broadcasting:

<u>Name of Agency</u>	
University of South Carolina	\$ 138,871
Department of Health and Human Services	87,069
Public Service Commission	62,537
Department of Transportation	43,322
Clemson University	40,450
South Carolina State University	34,932
Commission for Higher Education	33,675
Department of Education	33,303
Department of Health and Environmental Control	28,061
Winthrop University	27,256
State Budget and Control Board	25,663
Department of Insurance	20,950
Department of Natural Resources	15,001
Other State agencies under \$10,000 each	56,367
Total	<u>\$ 647,457</u>

During the year, the Commission purchased services from various State agencies. These expenditures are reported primarily under the classification of Internal Administration primarily for taxes, insurance telecommunications and other contracted services and were paid to the following State agencies:

<u>Name of Agency</u>	
State Budget and Control Board	\$ 1,985,268
State Accident Fund	157,432
Comptroller General	52,653
University of South Carolina	44,226
Department of Revenue and Taxation	26,937
South Carolina State University	18,080
Other State agencies under \$10,000 each	4,984
Total	<u>\$ 2,289,580</u>

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 12. PENSION PLAN AND OTHER EMPLOYEE BENEFITS:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Commission are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2003, the employer contribution rate became 10.85 percent which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The Commission's actual contributions to the SCRS for the years ended June 30, 2004, 2003, and 2002, were approximately \$703,000, \$836,000, and \$894,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Commission paid employer group-life insurance contributions of approximately \$14,000 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Commission for pension and group-life benefits are included as personal services expenses.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Commission's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Commission's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the fund recognizes no contingent liability for unfunded costs associated with participation in the plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts that are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment. Under State law, contributions to the ORP are require at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 3.30 percent from the employer in fiscal year 2004.

For the fiscal year, total contributions requirements to the ORP were approximately \$5,200 (excluding the surcharge) from the Commission as employer and approximately \$4,200 from its employees as plan members. 5.7 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board. Also, the Commission paid employer group life insurance contributions of approximately \$100 in the current fiscal year at the rate of .15 percent of compensation. The balance was remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 13. POST RETIREMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Commission are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally, those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

These benefits are provided through annual appropriations by the General Assembly to the Commission for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the Fund for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 25,000 State retirees met these eligibility requirements as of June 30, 2003.

The Commission recorded employer contribution expenses applicable to these insurance benefits for active employees in the amount of approximately \$841,000 for the year ended June 30, 2004. As discussed in Note 13, the Fund paid approximately \$310,000 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to Commission retirees is not available. By State law, the Fund has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements. In addition, the South Carolina General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from the System's earnings; however, a portion of the required amount is appropriated from the South Carolina General Fund annually.

NOTE 14. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Commission have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 15. RETIREMENT INCENTIVE

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Commission recorded expenditures of approximately \$22,000 for lump-sum vacation leave payments to its employees retiring under TERI in fiscal year 2004. These expenditures are reported in the applicable program categories in which the payroll costs for the respective employees are recorded.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 16. RISK MANAGEMENT:

The Commission is exposed to various risks of loss and maintains State or commercial insurance coverage for certain of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Commission pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Commission and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability. The IRF's rates are determined actuarially.

The Commission obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The limit is \$100,000 per incident. The Commission self-insures above this amount because it feels the likelihood of loss is remote. No payments for uninsured losses were made during the fiscal year ended June 30, 2004.

The Commission obtains broadcaster liability insurance through a commercial carrier covering media liability. The policy has a limit of \$1,000,000 with a \$5,000 deductible.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The Commission has recorded insurance premium expenses in the applicable program expenditure category. These expenses do not include estimated claim losses and estimable premium adjustments.

The Commission has not reported an estimated claims loss expenditure, and the related liability at June 30, 2004, based on the requirements of GASB Statement No. 10 Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which states that a liability for claims must be reported if information prior to issuance of the financial statements indicates that it is probable and estimable for accrual that an asset has been impaired or liability has been incurred on or before June 30, 2004 and the amount of the loss is reasonably estimable have not been satisfied.

In the fiscal year ended June 30, 2004, the Commission was unable to obtain business interruption insurance at a cost it considered economically justifiable. In addition, the Commission's management believes for risk of loss the occurrence of which it considers a remote likelihood, it is more economical to manage such risks internally. The Commission does not derive any revenue from advertising; therefore, no loss of revenue would occur if transmission capabilities were impaired.

The Commission is unable to estimate lost revenues, the costs of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. During the fiscal year ended June 30, 2004, the Commission did not experience any losses as a result of business interruption.

In management's opinion, claim losses in excess of insurance coverage, if any, is unlikely and if it occurred, would not be significant. Therefore, no loss accrual has been made in these financial statements. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expense and liability should be accrued at year-end.

NOTE 17. COMMITMENTS:

As of June 30, 2004, the Commission had approximately \$2,783,000 in outstanding commitments primarily for purchases of supplies and equipment. The funding sources for these commitments consist primarily of capital improvement bond proceeds, State Capital Reserve Fund appropriations, EIA funds, State Lottery grants, and other operating sources.

NOTE 18. CONTINGENCIES:

During fiscal year 2001, the Corporation for Public Broadcasting (CPB) performed an audit of the Commission's Non-Federal Financial Support (NFFS) for the fiscal years 1998, 1999 and 2000. The CPB bases its annual grant to the Commission on the Commission's NFFS.

According to the CPB's Inspector General's audit findings, the Commission had overstated its NFFS which resulted in higher grant awards from the CPB. The Commission included in-kind local productions in calculating the NFFS. In 1996, the CPB simplified its grants process and no longer accepted donated local or national programming for NFFS purposes.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The audit findings went further and recalculated the grant awards received by the Commission in fiscal years 2000 and 2001 which are based on the Commission's NFFS for fiscal years 1998 and 1999, respectively. The CPB has requested a reimbursement for the difference of \$775,841 and the Commission recorded a liability for the \$775,841 in fiscal year 2001.

The Commission, in a letter dated in October of 2001, asked that the amount due be relieved. Additional correspondence has been sent to the CPB and received. CPB has not changed its initial determination.

NOTE 19. PRIOR PERIOD ADJUSTMENT

The Commission discovered that certain private grants receivable of \$113,521 were reported in the general fund instead of the other governmental funds on the fund financial statements in error. This error also resulted in deferred revenues being understated by the \$113,521. The amount reported for beginning net assets/fund balances have been restated for this adjustment.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2004

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures To Subrecipients</u>
<i>Direct Programs:</i>			
U.S. Department of Commerce			
Public Telecommunication Facilities Planning and Construction	11.550	\$ 505,901	\$ -
Total Direct Programs		<u>\$ 505,901</u>	<u>\$ -</u>

NOTE: The Commission used the accrual basis method of accounting in preparing the above schedule. This is the same basis of accounting used by the Commission in the preparation of its annual financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Educational Television Commission (the Commission) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 11, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 through 04-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

However, we noted a matter involving the internal control over financial reporting that we have reported to management of the Commission as detailed on page 41.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Governor of South Carolina and Commission members and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Lalan, PA

November 11, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We audited the compliance of the South Carolina Educational Television Commission (the Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Department's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

As described in item 04-4 in the accompanying Schedule of Findings and Questions Costs, the Commission did not comply with those requirements regarding suspension and disbarment that are applicable to the Public Telecommunications Facilities Planning and Construction program. Compliance with such requirements is necessary, in our opinion, for the Commission to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Commission's ability to administer a major federal program in compliance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions is described in the accompanying Schedule of Findings and Questioned Costs as item 04-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 04-4 to be a material weakness.

This report is intended solely for the information and use of the Governor of the State of South Carolina, Commission members and management of the Commission, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan, PA

November 11, 2004

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditor's report issued: Unqualified Opinion
2. Internal control over financial reporting:
- Material weaknesses identified: x yes no
- Reportable conditions identified not considered to be material weaknesses? x yes no
3. Non-compliance material to the Financial Statements noted? yes x no

Federal Awards

4. Internal control over major programs:
- Material weaknesses identified: x yes no
- Reportable conditions identified not considered to be material weaknesses? yes x no
5. Type of auditor's report issued on compliance for major programs: Qualified Opinion
6. Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? x yes no
7. Identification of major programs:

CFDA Number	Name of Federal Program
11.550	Public Telecommunication Facilities Planning and Construction

8. Dollar threshold used to be distinguished between Type A and Type B Programs: \$ 300,000
9. Auditee qualified as low-risk auditee? yes x no

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

04-1 ERRORS IN ANNUAL LEAVE LIABILITY REPORT

Condition: Our audit procedures identified three errors in the balances on the annual leave liability report as of June 30, 2004. One person retired and the leave balance was not reduced by the 360 hours paid. Two other employees accrued hours during a period when they were not working enough hours to be eligible and the adjustment was not made until after June 30, 2004. Total accrued leave was overstated by approximately \$6,500. We also determined that the report used to report the amount of annual leave taken during the year was not accurate. A similar finding was cited in last year's other management letter comments section of the report.

Cause: Failure to adequately review the leave liability report and carelessness in preparing the report of leave used.

Effect: Overstatement of the leave liability and expenses .

Criteria: Generally accepted accounting principles require the maintenance of accurate records.

Recommendation: We recommend that the Commission ensure that all schedules that are used to support financial statements amounts are accurate.

04-2 SOFTWARE CAPITALIZED IN ERROR

Condition: The Commission capitalized and depreciated four items for computer software with a total cost of approximately \$39,000 which did not meet the State's minimum amount to be capitalized. The same finding was cited in the prior year's management letter.

Cause: Failure to carefully review the detailed capital asset listing to ensure that all items met the capitalization policy.

Effect: Overstatement of assets and understatement of expenses.

Criteria: The Office of the Comptroller General's GAAP Closing Procedures Manual contains the capitalization policy for all assets.

Recommendation: We recommend that the Commission adhere to the policies as required.

04-3 DEFICIENCIES NOTED IN CONTROLS OVER CAPITAL ASSETS

Condition: Our audit procedures of capital assets disclosed the following:

- a. The Commission has not performed a physical observation of capital assets in over one year.
- b. Some equipment that had been cannibalized, is obsolete, or is not being used and had not been removed from the detailed equipment listing.
- c. The Commission could not locate one item out of 20 sampled at the Columbia location and one item out of 5 at the Sumter location could not be located.
- d. A piece of equipment that was on the listing for the Sumter location had been transferred to Columbia but the required transfer paperwork had not been completed.

A lack of controls over capital assets was also cited in the prior year's report.

Effect: Lack of controls over capital assets and possible misstatement of the amount of capital assets reported.

Criteria: Good internal control policies require a system in place to accurately account for all assets.

Recommendation: We recommend that the Commission perform an annual observation of all moveable equipment and that a determination be made of all assets not currently being used by the Commission to determine whether they should be removed from the capital asset listing.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

04-4 Public Telecommunications Facilities Planning and Construction – CFDA # 11.550

Condition: The Commission did not have a system in place to determine whether any contracts had been entered into with an entity that was on the listing on disbarred or suspended entities. The Commission was suppose to receive a certification from the entity that it had not been disbarred or suspended. Our audit determined that no payments were made to any entity that had been disbarred or suspended.

Criteria: Federal regulations prohibit the awarding of any contract in excess of \$100,000 to any entity that have been disbarred or suspended.

Effect of Condition: The Commission could make payments to an entity that is not eligible from federal funds and would have to refund the amounts involved to the federal government.

Cause of Condition: The Commission was not aware of this requirement.

Recommendation: The Commission should implement a system to ensure that no contracts are awarded to entities that have been disbarred or suspended. Also, the Commission should ensure that it has a system in place to be aware of any changes to the federal requirements.

**SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION
OTHER MANAGEMENT LETTER COMMENT**

FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT FOR ANNUAL LEAVE TAKEN NOT AVAILABLE

The Commission changed to an electronic annual leave system during the year so that all leave taken is entered into the system by the employees and no written leave slip is maintained. The system is set up so that only the employee can print out a record of leave taken. The Commission is not able to print out the reports.

We recommend that the software be reprogrammed to allow appropriate Commission personnel to assess the leave system to print out the reports required for audit purposes.

SOUTH CAROLINA EDUCATIONAL TELEVISION COMMISSION

STATUS OF PRIOR FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

During our current audit, we reviewed the status of corrective action taken on the findings we reported in our report on the financial statements of the Commission dated December 24, 2003, resulting from the audit of the financial statements for the year ended June 30, 2003. The finding regarding the error in costs incurred for programs not telecast and the finding regarding operating lease deficiencies were corrected. The remaining findings are repeated in this year's Schedule of Findings or Questioned Costs.

CORRECTIVE ACTION PLAN

APPENDIX A



CORRECTIVE ACTION PLAN

November 23, 2004

Thomas L. Wagner Jr., CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Dear Mr. Wagner:

The South Carolina Educational Television Commission respectfully submits the following Corrective Action Plan for the year ended June 30, 2004.

This plan outlines actions taken, or to be taken, to address "material weaknesses" contained in the audit report prepared by Rogers and Laban, PA, CPA's dated November 11, 2004. Each audit recommendation is repeated prior to our response and numbered as in the audit report.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

04-1 Errors in Annual Leave Liability Report

Recommendation:

We recommend that the Commission ensure that all schedules that are used to support financial statements amounts are accurate.

SC ETV Corrective Action:

The Commission concurs that the schedules used to support this report should be accurate. During the fiscal year, the Commission began using the Budget and Control Boards E-Leave system. The schedules used to prepare the leave liability report were done manually and were very labor intensive. We will contact the Budget and Control Board as to the availability of getting reports and / or data electronically to assist in preparing the leave liability report in order to prevent these errors on future reports.

04-2 Software Capitalized in Error

Recommendation:

We recommend that the Commission adhere to the policies as required.

SC ETV Corrective Action:

The Commission concurs that the capitalization criteria should be followed. During the preparation of the capital assets closing package, intangible items less than \$100,000 were included on the capital asset listing. Future asset listings will be reviewed carefully to ensure that all assets meet the Comptroller General capitalization criteria.

04-3 Deficiencies Noted in Controls over Capital Assets

Recommendation:

We recommend that the Commission perform an annual observation of all moveable equipment and that a determination be made of all assets not currently being used by the Commission to determine whether they should be removed from the capital asset listing.

SC ETV Corrective Action:

We concur with this recommendation. A physical inventory was completed prior to the fiscal year and due to staff constraints one was not performed during the current fiscal year. All assets have been tagged with a bar code and accounting staff will work with computer services staff to ensure the bar code scanners are working properly. The scanners will enable the inventory to be taken in a more timely fashion. Agency staff will be reminded of the policies regarding the transfer of equipment and for the removal of assets no longer being used. Accounting staff is currently working with computer services to migrate the current fixed asset system to a new database format. This will allow users the ability to check their inventory and verify that the information is correct.

04-4 Public Telecommunications Facilities Planning and Construction – CFDA #11.550

Recommendation:

The Commission should implement a system to ensure that no contracts are awarded to entities that have been disbarred or suspended. Also, the commission should ensure that it has a system in place to be aware of any changes in federal requirements.

SC ETV Corrective Action:

We concur with this recommendation. The commission's current certification level for procurements is \$25,000 and all procurements greater than \$25,000 must be submitted to the Materials Management Office. All solicitations from the Materials Management Office contain "Solicitation Provisions Incorporated by Reference". Included in these provisions is

one for "Certification Regarding Debarment And Other Responsibility Matters." The Commission feels that this meets requirements for certification. The Commission will ensure that it uses the EPLS website to further document that vendors have not been debarred.

OTHER MANAGEMENT LETTER COMMENTS

Support for Annual Leave Taken not Available

Recommendation:

We recommend that the software be reprogrammed to allow appropriate Commission personnel to assess the leave system to print out the reports required for audit purposes.

SC ETV Corrective Action:

The Commission began using the Budget and Control Boards E-Leave system during the fiscal year. Commission staff will work with the Budget and Control Board to ensure that all the information required for audit purposes can be obtained from the E-Leave system.

If additional information is needed, please contact Brad Livingston at 737-3223.

Sincerely,

A handwritten signature in black ink that reads "David L. Crouch". The signature is written in a cursive, flowing style.

David L. Crouch
Senior Vice President, Administration